

Message Text

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ACTION EB-08

INFO OCT-01 ISO-00 AF-08 ARA-06 EA-07 EUR-12 NEA-10 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-04 USIA-06 OES-06 SP-02 SS-15 STR-04 TRSE-00

ACDA-07 /132 W

-----230750Z 015192 /22

R 230558Z JAN 77

FM AMEMBASSY KUWAIT

TO SECSTATE WASH DC 7117

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BONN

AMEMBASSY BRASILIA

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY PARIS

AMEMBASSY QUITO

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSYF TRIPOLI

AMEMBASSY VIENNA

USMISSION OECD PARIS UNN

USMISSION EC BRUSSELS

AMCONSUL DHAHRAN

USINT BAGHDAD

C O N F I D E N T I A L KUWAIT 0416

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E.O. 11652: GDS

TAGS: ENRG, OPEC, KU, SA

SUBJECT: GOK CONTINUES UNEASY ABOUT DUAL OIL PRICE

REF: (A) KUWAIT 374, (B) LONDON 1073.

1. OIL MINISTRY UNDERSEC MAHMOUD AL-ADASANI'S COMMENTS TO AMBASSADOR DURING DINNER JANUARY 20 ON IMPACT OF OPEC TWO-TIER PRICE SYSTEM ON GOK REFLECTED GOVERNMENT'S CONTINUING CONCERN WITH UNFAVORABLE DEVELOPMENTS IN THIS SITUATION, PARTICULARLY AS THEY AFFECT KUWAIT. HE ADMITTED THAT KUWAIT'S DAILY PRODUCTION WAS DOWN AT LEAST ONE-THIRD.

2. AL-ADASANI ALSO REPORTED THAT DISCUSSIONS WITH VISITING SAUDI OIL MINISTRY UNDERSEC AL TURKI (REF A) HAD NOT REACHED FROM CONCLUSION AS OF THAT TIME. DISCUSSIONS CENTERED ON PRICE TO BE CHARGED FOR CRUDE PRODUCED BY THE ARABIAN OIL COMPANY IN OFFSHORE KHAFJI FIELD IN THE NEUTRAL ZONE SHARED JOINTLY BY SAUDI ARABIA AND KUWAIT. KHAFJI FIELD IS EXTENSION OF SAUDI ARABIAN SAFANIYA FIELD PRODUCING OIL SIMILAR TO KUWAITI CRUDE. ACCORDING TO AL-ADWEANI, SAUDI ARABIA HAS RAISED PRICE OF SAFANIYA CRUDE BY ONLY 3 PERCENT, WHILE KUWAIT HAS HELD TO 10 PERCENT INCREASE MINUS DIFFERENTIAL. IF ARABIAN OIL CO. HAS TO CHARGE 10 PERCENT INCREASE FOR KUWAITI SHARE OF ITS PRODUCTION, NOT ONLY WILL IT NOT SELL ANY, BUT IT WILL ALSO SUFFER LOSS OF ITS RESERVES IF SAUDI ARABIA HIKES PRODUCTION OF ITS SAFANIYA FIELD WHICH DRAWS FROM THE SAME STRUCTURE.

3. AL-ADASANI GAINED IMPRESSION FROM AL-TUKI THAT SAUDIS INTEND TO REMAIN FIRM ON THEIR INTENTION TO INCREASE PRODUCTION. DOUBLING OF SAIFANIYA PRODUCTION TO 2 MILLION B/D WOULD DIRECTLY CUT INTO KUWAIT SALES.

4. QUERIED ON THE POSSIBILITY THAT AN EARLY OPEC CONFERENCE
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MIGHT BE CONVENED, AL-ADASANI INDICATED THAT QATARI OIL MINISTER WAS ACTIVELY LOOKING INTO THIS, BUT THAT MUCH WOULD DEPEND ON RESULTS ON HIS VISIT TO TEHRAN. IN ANY EVENT, AL-ADASANI HOPED THAT THE SITUATION COULDPBE STRAIGHTENED OUT DURING THIS FIRST QUARTER OF 1977. OTHERWISE, HE ANTICIPATED CERTAIN DIFFICULTIES FOR KUWAIT. WITHOUT COMMITTING HIMSELF, HE THOUGHT THAT A COMPROMISE COULD BE REACHED ON AN INCREASE OF SLIGHTLY LESS THAN 10 PER CENT.

5. COMMENT: KUWAIT CLEARLY IS QUITE SHAKY ON WHOLE OIL PRICE ISSUE AND COULD WELL BE THE KEY TO MOVE TOWARD A COMPROMISE WHICH MIGHT POSSIBLY BE ACCEPTED BY SAUDI ARABIA IN THE INTEREST OF RESTORING OPEC UNITY. IMPORTANT FACTOR IN THIS ISSUE WILL BE WILLINGNESS OF MAJOR OIL COMPANIES TO HOLD FIRM IN THEIR RESISTANCE TO OPEC ELEVEN PRICE INCREASE. ANALYSIS OF UK POSITION PROVIDED IN REF B IS MOST DISQUIETING: CONCUR IN AMEMBASSY LONDON'S RECOMMENDATION THEREIN FOR HIGH-LEVEL US-UK CONSULTATION, HOPEFULLY TO PERSUADE BP AND SHELL TO STAND FIRM SINCE CHANCES MAY BE GOOD THAT RESOLUTION

OF OPEC PRICE PROBLEM TO OUR ADVANTAGE MIGHT BE REACHED
DURING THIS FIRST QUARTER.
MAESTRONE

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